

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6997**

**BILL NUMBER:** HB 1205

**NOTE PREPARED:** Jan 12, 2010

**BILL AMENDED:** Jan 12, 2010

**SUBJECT:** PERF and TRF COLAs; 13th Checks.

**FIRST AUTHOR:** Rep. Niezgodski

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X  
X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides for a cost-of-living adjustment (COLA) and thirteenth check for Public Employees' Retirement Fund (PERF) and Teachers' Retirement Fund (TRF) members, survivors, and beneficiaries.

**Effective Date:** July 1, 2010.

**Explanation of State Expenditures:** (Revised) This proposal provides a 1% COLA for those PERF and TRF members who retired or were disabled before December 1, 2009. The bill also provides a one-time 13<sup>th</sup> check to eligible PERF and TRF members payable not later than October 1, 2010.

**Teachers' Retirement Fund 1% COLA-**

***Pre-1996 Fund-***

Since the Pre-1996 Fund is funded on a pay-as-you-go basis, the annual cost is the increase in the amount of benefits paid each year. The initial increase in benefits paid is expected to be \$6.7 M in FY 2011, gradually decreasing in future years due to mortality (Table 2). The ultimate cost of this proposal for current Pre-1996 Fund members is the increase in the present value of their benefits of approximately \$67.2 M (Table 1).

***1996 Fund-***

The 1996 Fund is prefunded, with an actuarially calculated contribution equal to the benefit accrual cost for the year (the Plan's normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. The

proposal has no impact on the plan's normal cost, and increases the unfunded benefit liability by \$3.7 M (Table 1). The actuarially calculated contribution increase is about \$300,000 (0.1% of payroll) (Table 2). The ultimate cost of this proposal for current 1996 Fund members is the increase in the present value of their benefits: approximately \$3.7 M.

<b>Table 1. Increase in Present Value of Future Benefits from COLA.</b>			
	<b>Amount Recognized in Valuation (1.5% on 1/1/2010)</b>	<b>COLA Provided in Bill (1.5%/1% on 1/1/2010)</b>	<b>Net Increase (Decrease) Over 1.5% Assumption</b>
Pre-1996 Fund	<b>\$101,000,000</b>	\$67,200,000	(\$33,800,000)
1996 Fund	<b>\$5,500,000</b>	\$3,700,000	(\$1,800,000)
<b>Total</b>	<b>\$106,500,000</b>	\$70,900,000	(\$35,600,000)

The fund affected for the Pre-1996 Fund is the state General Fund. For the 1996 Fund, school corporations contribute a percentage of payroll, currently 7.50%.

<b>Table 2. Estimated Increase in Projected Benefit Payments</b>				
	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Pre-1996 Fund	\$0	\$6,700,000	\$6,700,000	\$6,700,000
1996 Fund	\$0	\$300,000	\$300,000	\$300,000
<b>TOTAL</b>	\$0	\$7,000,000	\$7,000,000	\$7,000,000

#### TRF 13<sup>th</sup> Check-

For the Pre-1996 Fund, there will be a one-time payment of \$15.3 M in FY 2011. For the 1996 Fund, there will be a one-time payment in FY 2011 of \$700,000.

#### 1% COLA and 13<sup>th</sup> Check

The ultimate cost of the combined proposals is the value of the one-time 13<sup>th</sup> check plus the increases in the present value of future benefits for the 1% COLA, approximately \$87 M (\$16 M plus \$70.9 M).

Annual COLAs of 1.5% per year are assumed in the valuation and are pre-recognized in annual contribution requirements. The present value of the assumed COLA is approximately \$106 M.

Since the combined cost of the proposals is less than the assumed 1.5% COLA, the net impact on the plan is a reduction in unfunded accrued liability of \$19 M compared to the COLA assumed for the valuation. If neither the 1% COLA or the 13<sup>th</sup> check is granted, the unfunded accrued liability is reduced by \$106 M.

#### Public Employees' Retirement Fund 1% COLA-

*Summary of State Fiscal Impact for PERF COLA:* The bill provides a 1% COLA payable after June 30, 2010. The COLA is for retirements before January 1, 2010. Current statute has no provision for a COLA in FY 2011. Consequently, the fiscal impact of the 2010 adjustment provided in this bill, over what is in current statute, is estimated to result in an increase of the unfunded accrued liability of \$13.4 M. This represents an increase in the annual funding requirement of about \$1.030 M for FY 2011 and fiscal years thereafter (representing approximately a 0.064% increase in annual funding as a percent of payroll).

*Summary of State Budget Impact for PERF COLA:* Although a COLA for 2011 is not provided in current statute, PERF is currently calculating the contribution requirement for the state in anticipation of passage of a 1.5% COLA for FY 2011. Consequently, the budgetary impact from the 1% COLA adjustment provided in this bill compared to the COLA assumptions used in the actuarial calculations is estimated to result in a reduction of the unfunded accrued liability of \$7.9 M. This represents a reduction of annual costs of about \$610,000 in FY 2011, and in fiscal years thereafter, representing approximately 0.036 % of payroll.

#### PERF 13<sup>TH</sup> Check-

The cost of providing a 13<sup>th</sup> check for PERF is shown in the table below.

13 <sup>th</sup> Check	State
Change in Unfunded Accrued Liability	\$7.56 M
Change in Annual Funding	\$580,000
Change in Annual Funding as % of Pay	0.034%

The funded status would decrease from 93.1% to 92.9%.

The funds affected for the impact on annual funding are the state General Fund (55%), or \$319,000, and various dedicated funds (45%), or \$261,000.

#### Explanation of State Revenues:

**Explanation of Local Expenditures:** *Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 1.0% COLA for members, survivors, and beneficiaries of PERF payable after June 30, 2010. Current statute has no provision for a COLA in CY 2010. Consequently, the fiscal impact of the 2010 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of \$19.9 M. This would result in an additional annual funding requirement of about \$770,000 in CY 2010 and \$1.54 M CY 2011 and years thereafter (representing approximately 0.05% of payroll) over what is provided for in current statute.

*Summary of Local Budget Impact of PERF COLA:* Although a COLA for 2010 is not provided in current statute, future PERF funding requirements are currently calculated in anticipation of passage of a 1.5% COLA for CY 2010. Consequently, the budgetary impact from the 2010 adjustment provided in this bill over the COLA assumptions used in the actuarial calculations is estimated to result in a reduction of the unfunded accrued liability of \$11.79 M. This represents a reduction in annual cost of \$455,000 in CY 2010, and \$910,000 in CY 2011 and years thereafter (representing approximately 0.030% of payroll).

#### PERF 13<sup>TH</sup> Check-

The cost of providing a 13<sup>th</sup> check for PERF is shown in the table below.

<b>13<sup>th</sup> Check</b>	<b>Local</b>
Change in Unfunded Accrued Liability	\$11.28 M
Change in Annual Funding	\$870,000
Change in Annual Funding as % of Pay	0.028%

**Explanation of Local Revenues:**

**State Agencies Affected:** All

**Local Agencies Affected:** Those units with members in PERF and school corporations with members in TRF.

**Information Sources:** Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; John Dowell, Nyhart Group, actuaries for TRF, 317-845-3580.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

Cost-of-Living Adjustment- An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Thirteenth Check– A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.